

OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of

No. G05-02

The Financial Examination of  
**STATES WEST LIFE**  
**INSURANCE COMPANY**) ) ) ) )  
FINDINGS, CONCLUSIONS,  
AND ORDER ADOPTING REPORT  
OF  
FINANCIAL EXAMINATION

A Domestic Insurer. \_\_\_\_\_

**BACKGROUND**

An examination of the financial condition of **STATES WEST LIFE INSURANCE COMPANY** (the Company) as of December 31, 2002, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on January 25, 2005. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 19 of the report.

**CONCLUSIONS**

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **STATES WEST LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner

STATES WEST LIFE INSURANCE COMPANY

Order Adopting Examination Report  
February 22, 2005

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Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501



acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

### **ORDER**

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

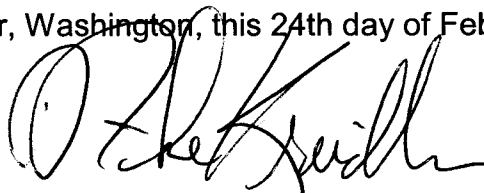
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-6.

1. Pursuant to RCW 48.05.250, the Company is ordered to correctly report its outstanding capital stock shares and their value in all future annual statements and file corrected Articles of Incorporation with the OIC in compliance with RCW 48.08.010(1). Instruction 1, Examination Report, page 2.
2. The Company is ordered to make any appropriate accounting entries to correctly reflect the financial position of SWLIC by booking the accumulated tax benefit as a reduction of earned surplus and a liability to the Parent in compliance with RCW 48.05.250, RCW 48.05.073, and WAC 285-07-050(2). Instruction 2, Examination Report, page 2.
3. The Company is ordered to follow the AP&P instructions as required by WAC 284-07-050(2) and RCW 48.05.073. This includes the 2002 FCEH provisions requiring: the custodian notify the commissioner if a custodial agreement is terminated or if all of the custodial account assets have been withdrawn (2002 FCEH, Part 1 - General, IV, Section H, Paragraph 2.f.), maintenance of adequate insurance protection for its custodial assets (FCEH, Part 1 - General, IV, Section H, Paragraph 2.k.), and the custodial agreement be authorized by the Board of Directors. Instruction 3, Examination Report, page 3.
4. The Company is ordered to maintain amortization schedules for individual investments that will tie to the amortization reported in its Schedule D and is ordered to comply with RCW 48.12.170(1)(b), which requires that bonds or evidences of debt having a fixed term and rate, "... if purchased above or below par ..." shall be valued "...on the basis of the purchase price adjusted so as to bring the value to par at the earliest date callable at par or maturing at par..." "...or in lieu of such method, according to such accepted method of valuation as is approved by the commissioner." Instruction 4, Examination Report, page 3.
5. Pursuant to RCW 48.31B.030(1)(b)(iv), the Company is ordered to submit to the OIC written service agreements with NorthStar Administrators, Inc., and Quality Solutions before implementation. Instruction 5, Examination Report, page 4.

6. Pursuant to RCW 48.05.370, the Company is ordered to annually obtain and review conflict of interest declarations from appropriate personnel and to report the results to the Board, as required by its Conflict of Interest Policy. Instruction 6, Examination Report, page 4.
7. Pursuant to RCW 48.05.073, which requires conformity with the AP&P, and RCW 48.05.250, which requires a "true statement" in accordance with NAIC guidelines, the Company is ordered to follow the NAIC Annual Statement Instructions when preparing its annual statement and to reconcile its direct premiums and paid claims as part of its annual statement process. Instruction 7, Examination Report, page 5.
8. The Company is ordered to follow RCW 48.05.250 and annually present a true statement of its financial condition, transactions and affairs in the form approved by the NAIC. Instruction 8, Examination Report, page 5.
9. Pursuant to WAC 284-07-350(3), the Board of Directors of the Company are ordered to properly appoint a qualified individual actuary and to give the commissioner the required written notice of that appointment. Instruction 9, Examination Report, page 5.
10. The Company is ordered to ensure that its Investment Management Agreement with Baird Advisors is properly dated and signed by an authorized individual. Comments and Recommendations 1, Examination Report, page 6.
11. The Company is ordered to comply with its policies by restricting check signing to only those persons who are authorized by the Board of Directors. Comments and Recommendations 2, Examination Report, page 6.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 24th day of February, 2005.



MIKE KREIDLER  
Insurance Commissioner

January 25, 2005

James T. Odiome, CPA, JD  
P.O. Box 40255  
Olympia, WA 98504-0255

RE: Examination Report of States West Life Insurance Company as of December 31, 2002

Dear Mr. Odiome:

Following please find our comments for the Examination Report of States West Life Insurance Company as of December 31, 2002. Please incorporate them in the final report.

Instructions:

**1. Revision of Capital and Surplus**

The Company made an adjusting entry in 2003 to appropriately reflect the common stock value at \$2.4M with the remainder classified as additional paid in capital. These amounts were reported on the 2003 Annual Statement. Therefore, no amendment to the Articles of Incorporation is necessary.

**2. Tax Allocation**

The NOL in question reduces the regular tax. During the years in question, Premera Blue Cross (PBC) did not pay the regular tax. Accordingly, the regular tax NOL was without value to PBC. PBC did not collect for the use of the NOL because that NOL had no value. PBC recorded the transaction at its fair value which was zero. Since intercompany entries must be the same for both parties in the transaction, LifeWise Assurance Company must also record the use of the regular tax NOL at the same amount, or zero.

We believe our tax treatment complies with applicable accounting practices and our tax sharing agreement. Therefore, we believe your proposed entry should not be made. Please notify us of your concurrence.

**3. Custodial Agreement**

The Custodial Agreement was amended in August 2003 to include notification to the Insurance Commissioner and maintenance of adequate insurance protection. Kent Marquardt, a director of LifeWise Assurance Company, approved this Custodial Agreement.

**4. Accounts and Records**

Subsequent to the examination, the Company succeeded in devising a methodology for verifying the amortization calculations. The Company is establishing a policy for verifying such calculations on a regular, systematic basis.

**5. Service Agreements**

The Company will review its general intercompany service agreement as well as the referenced services to the extent currently performed by NorthStar Administrators, Inc. and Calypso Healthcare Solutions (formerly known as Quality Solutions) and, if necessary, submit to the OIC agreements in compliance with RCW 48.31B.030(1)(b)(iv).

**6. Conflict of Interest**

As noted under section 6, page 4 of the report, the Company has since 1998 received and reviewed a Conflict of Interest declaration from all Company officers and directors and will continue to do so pursuant to RCW 48.05.370.

**7. Annual Statement Preparation**

The Company prepares its Annual Statement in accordance with the NAIC Annual Statement Instructions. Additionally, the Company will reconcile direct premiums and paid claims. The specific items noted were corrected in the 2003 Annual Statement.

**8. Jurat Page**

The Company recognized this individual was not an officer and, therefore, should not be recorded on its Jurat page. The correction was made from 1999 forward.

**9. Appointed Actuary**

The Company has properly appointed a qualified individual actuary and will resubmit to the commissioner the required notice of that appointment.

Comments and Recommendations:

**1. Investment Management Agreement**

The Investment Management Agreement with Baird Advisors has been dated and signed by an authorized individual.

**2. Check Signer**

The Company has restricted check signers to only those persons authorized by the Board of Directors.

Additionally, on page 10, please remove the second 'n' from my name. Also, on page 11, first paragraph third line, please insert PBC before 'president'.

Please let me know if you have any questions. You can reach me at (425)918-4640.

Sincerely,



Sharilyn A. Campbell

VP, Finance